



# The EU budget Review

**Brussels, 15.12.2010**

# Path to the Budget Review

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## ***Mandate***

Commission invited to undertake a wide ranging review of:

- ❑ all aspects of EU spending, including the CAP
- ❑ all aspects of resources, including the UK correction

## ***Process***

Extensive preparation:

- ❑ Public consultation – more than 300 contributions (all Member States, EU institutions...)
- ❑ Political conference – biggest conference ever organized on the EU budget.
- ❑ EU Parliament participated actively in the process (Lamassoure and Böge reports)

# Context – The crisis and beyond

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## ***Increased global challenges***

- ❑ Climate change, energy, security, migration...

## ***A radically changed economic climate***

- ❑ Economic governance and budgetary consolidation at the heart of the political debate.
- ❑ Public spending played a key role in the recovery process

## ***Impact of the Lisbon Treaty***

- ❑ Regulation on the MFF to be adopted by unanimity with consent of the European Parliament
- ❑ p.m. Own Resources Decision to be adopted by unanimity and ratified by all the Member States

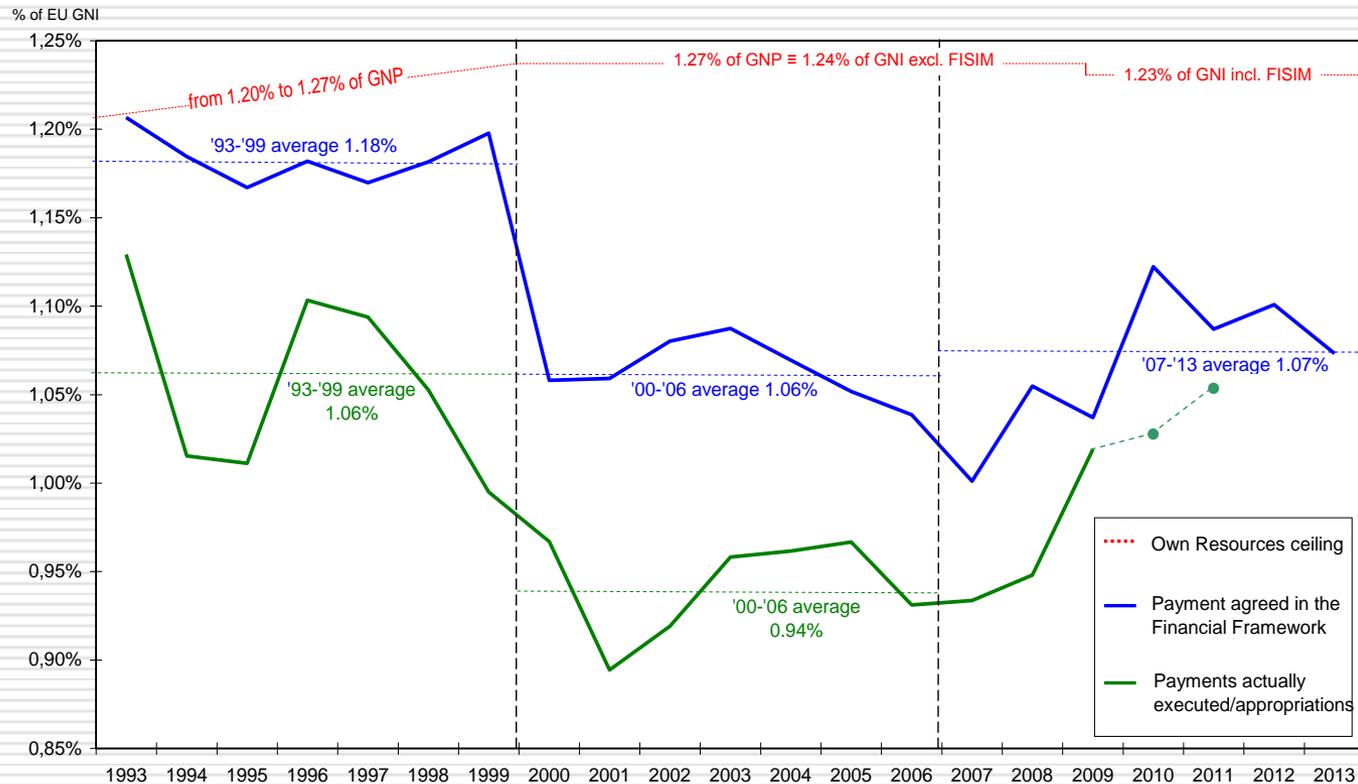
# Lessons from the budget today

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## ***Key features***

- ❑ Multiannual Financial Framework: a key tool to ensure budgetary discipline and predictability – but limited flexibility is an issue
- ❑ Economic governance: EU budget as a tool to strengthen common rules – but creates pressure on own resources ceiling
- ❑ 'Juste retour': focus on net balances means that highest EU added value is not always the first consideration.
- ❑ Delays to put new programmes in place – early agreement needed and better design, clearer priorities, harmonized procedures, flexible approach to co-financing
- ❑ Innovative financial instruments: think beyond grants

# Graph 1: Evolution of OR and MFF ceilings



# Table 1: Existing sources of flexibility have been extensively used...

## FINANCING OF EERP + GALILEO + HIGH FOOD PRICES FACILITY

| Commitment appropriations (EUR million)  | TOTAL                         |        |                                |    |                               |        |                                |    |                               |      |  |
|--|-------------------------------|--------|--------------------------------|----|-------------------------------|--------|--------------------------------|----|-------------------------------|------|--|
| Revision of heading 1A (fully compensated)   | 5.376                         |        |                                |    |                               |        |                                |    |                               |      |  |
| <table border="1" style="margin-left: 40px;"> <tr> <td style="text-align: right;"><i>Compensation mechanism</i></td> <td style="text-align: right;">-5.376</td> </tr> <tr> <td style="text-align: right;"><i>Compensation heading 1B</i></td> <td style="text-align: right;">-7</td> </tr> <tr> <td style="text-align: right;"><i>Compensation heading 2</i></td> <td style="text-align: right;">-5.064</td> </tr> <tr> <td style="text-align: right;"><i>Compensation heading 3A</i></td> <td style="text-align: right;">-5</td> </tr> <tr> <td style="text-align: right;"><i>Compensation heading 5</i></td> <td style="text-align: right;">-300</td> </tr> </table> | <i>Compensation mechanism</i> | -5.376 | <i>Compensation heading 1B</i> | -7 | <i>Compensation heading 2</i> | -5.064 | <i>Compensation heading 3A</i> | -5 | <i>Compensation heading 5</i> | -300 |  |
| <i>Compensation mechanism</i>  | -5.376                        |        |                                |    |                               |        |                                |    |                               |      |  |
| <i>Compensation heading 1B</i>   | -7                            |        |                                |    |                               |        |                                |    |                               |      |  |
| <i>Compensation heading 2</i>  | -5.064                        |        |                                |    |                               |        |                                |    |                               |      |  |
| <i>Compensation heading 3A</i>   | -5                            |        |                                |    |                               |        |                                |    |                               |      |  |
| <i>Compensation heading 5</i>  | -300                          |        |                                |    |                               |        |                                |    |                               |      |  |
| Financed from the unallocated margin within H1A  | 84                            |        |                                |    |                               |        |                                |    |                               |      |  |
| Financed through redeployment and reprioritisation under H1A   | 600                           |        |                                |    |                               |        |                                |    |                               |      |  |
| Financed from the unallocated margin under heading H2  | 1.020                         |        |                                |    |                               |        |                                |    |                               |      |  |
| Financed through redeployment within H4  | 240                           |        |                                |    |                               |        |                                |    |                               |      |  |
| Use of flexibility instrument  | 740                           |        |                                |    |                               |        |                                |    |                               |      |  |
| Use of emergency aid reserve   | 340                           |        |                                |    |                               |        |                                |    |                               |      |  |
| <b>Grand total</b>   | <b>8.400</b>                  |        |                                |    |                               |        |                                |    |                               |      |  |

# Table 2: ... but margins have been almost exhausted for the remainder of the period

Without (yet to be approved) transfers for ITER (1.4 bn euro)

| <b>Margins currently remaining under the multiannual financial framework ceilings 2010-2013<br/>(in million euro)</b> |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
|   | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
| <b>Heading 1A</b>   | 0           | 50.1        | 34          | 47          |
| <b>Heading 1B</b>   | 1.4         | 16.9        | 1.4         | 0.4         |
| <b>Heading 2</b>  | 456.2       | 851.8       | 126.2       | 131.4       |
| <b>Heading 3A</b>   | 18.5        | 70.7        | 26.5        | 52.9        |
| <b>Heading 3B</b>   | 0           | 15.2        | 18.1        | 22.8        |
| <b>Heading 4</b>  | 0           | 70.3        | 132.3       | 134.6       |
| <b>Heading 5</b>  | 43.5        | 160.6       | 122.7       | 151.3       |

# Five key principles for the budget

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## ❑ **Delivering key policy priorities**

The weight of spending should mirror the EU core priorities and the Lisbon Treaty – energy, climate, foreign affairs, justice and home affairs

## ❑ **EU added value**

Spending at EU level means a better deal for citizens: economies of scale, critical mass, cross-border challenges, leverage

## ❑ **A results-driven budget**

Spending programmes must have a real impact and fulfil their real purpose

## ❑ **Mutual benefits through solidarity**

EU budget is an indispensable part of the EU approach to solidarity. Geographically concentrated interventions can be necessary to achieve collective goals.

## ❑ **A reformed financing of the budget**

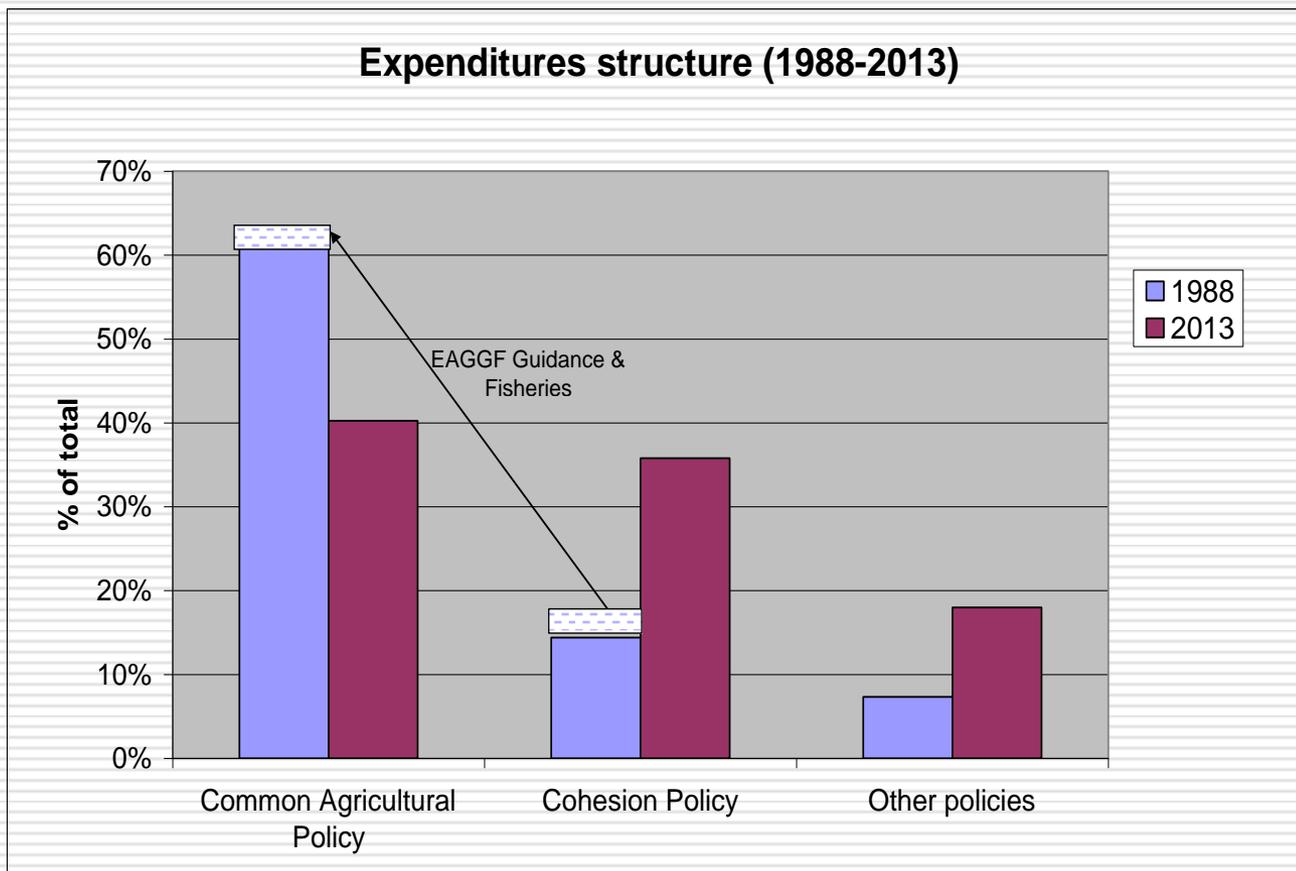
The connection between the own resources and common EU policies has been lost. Need for principles of autonomy, transparency and fairness.

# Emerging vision for the EU

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- ❑ The Europe 2020 strategy – towards a smart, sustainable and inclusive Union
- ❑ New emphasis on policy priorities to be supported by the EU budget
- ❑ The issue is not about spending more or less – but to spend more intelligently
- ❑ Develop the right tools to make a difference for the EU citizens

# Graph 2: Expenditures structure (1988-2013)



# Smart growth

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## ***Research and innovation***

- ❑ A common strategic framework for innovation. Innovation Union built on success stories such as the Risk-sharing Finance Facility and the European Technology Platforms
- ❑ Refocus priorities on major societal challenges, such as energy supplies and greenhouse gas emissions reductions
- ❑ Deliver the European Research Area and modernise education systems
- ❑ A major effort to simplify procedures

## ***Infrastructures of the future***

- ❑ Low carbon revolution requires strategic cross-border infrastructure in transport (inter-modal connections), communication (high-speed broadband) and energy (smart technologies)
- ❑ Requires an appropriate regulatory framework and strong involvement of private investors.

# Sustainable growth

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## ***Mainstreaming energy and climate policies***

- ❑ Large-scale dedicated funds devoted to investment in distinct programmes can help addressing the credit crunch and give credibility to EU long-range policies.
- ❑ Mainstreaming inside policies like research, cohesion, agriculture and rural development may be more efficient.

## ***The Common Agricultural Policy***

- ❑ Direct payments: strong case for progressively bringing payments levels closer together and moving away from historical references. Greening direct aids.
- ❑ Rural development: greener and more closely linked to other policies in a common strategic framework.
- ❑ Reliance on the market coupled with forms of insurance.

# Inclusive growth

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## ***Cohesion policy***

- ❑ A Common Strategic Framework at EU level for Structural, agricultural, rural development and fisheries funds.
- ❑ A contractual agreement between the Commission and the Member State reflecting the commitments of partners at national and regional level.
- ❑ Cohesion policy should continue to benefit to all regions, with concentration on less developed Member States and regions.
- ❑ Stronger thematic concentration on the Europe 2020 priorities, European Employment Initiative to coordinate EU and MS activities.
- ❑ Options for increasing quality and performance, e.g. through reserves and introducing a certain level of qualitative competition amongst Member States and regions.

# Citizenship

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- ❑ One visible programme promoting European unity in diversity to integrate cultural programmes and the involvement of young people.
- ❑ EU Solidarity Fund: broaden the scope and make interventions faster and more effective.
- ❑ More emphasis on the management of external borders, return policy, asylum and integration of legal immigrants.

# Global Europe

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- ❑ The Lisbon Treaty and the establishment of the European External Action Service should provide Europe with the tools to act more forcefully on the international stage.
- ❑ Collective commitment to devote 0.7 % of GNI to ODA implies a substantial increase of the EU and Member States' levels. EU intervention offers clear advantages in terms of coordination, economies of scale and political weight.
- ❑ Improve the EU's ability to respond to large-scale conflicts of disasters.
- ❑ Need to further reflect on the appropriate instrument to channel the EU's international contribution to climate change mitigation and adaptation.

# A budget delivering results

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## ***Leverage investment***

- ❑ Projects with long-term potential should involve EU funds used in partnership with the private and banking sectors.
- ❑ Two general mechanisms to be used by the different spending programmes: the EU Equity Platform Mechanism and the EU Risk-sharing Platform Mechanism.
- ❑ Loan guarantees: Implications for EU budget need to be carefully analysed in order to respect the own resources ceiling.

## ***EU project bonds***

- ❑ Huge infrastructure investment needs in areas like energy, transport and ICT contrasts with reluctance of private investors (financial crisis).
- ❑ EU project bonds: support from EU budget to project bonds issued by the private sector or by the EIB to the extent required to enhance the credit rating. Need for projects to demonstrate an EU strategic interest.

# A budget delivering results

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## ***Large scale projects***

- ❑ Projects like Galileo, ITER, and GMES require considerable investments over a time period going well beyond a financial framework.
- ❑ Cost overruns make them hardly compatible with the way in which the EU budget is planned.
- ❑ Possible alternative: separate support structure set up by the project promoters, to which the EU budget would make a fixed annual contribution.

## ***Incentivising the use of resources***

- ❑ Link to discussion on reinforcing economic policy coordination.
- ❑ Possible introduction of conditionalities defining a specific set of targets on which disbursement of EU funds would depend.
- ❑ Other options: performance reserves or modulate co-financing rates to performance.
- ❑ Need to define specific, measurable, achievable, relevant and timed objectives as well as performance indicators.

# A budget delivering results

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## ***A MFF structure to reflect priorities – 2 options***

- ❑ A framework reduced to a minimum of (three) headings: Internal expenditure, External expenditure and Administrative expenditure.
- ❑ Internal expenditure heading possibly divided in four sub-headings: smart growth, sustainable growth, inclusive growth, and citizenship.

## ***Duration of the MFF***

- ❑ Commission favours ten year period, but with a substantial mid-term review ("5+5"), possibly facilitated by substantial reserves and margins.

## ***Flexibility: responding to changing circumstances***

- ❑ Current framework too inflexible to meet the pressure of events.
- ❑ Many mechanisms are discussed: compulsory (increasing) margins; increased size of flexibility instruments, transfer of unused margins...
- ❑ Current 0.03% flexibility arrangement should be maintained.

# A budget delivering results

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## ***Simplify and minimise administrative burden***

- ❑ Implementation procedures and control requirements are too complicated.
- ❑ Proposal to revise the Financial Regulation contains bold measures to put in place simplified financial rules.
- ❑ A clear set of common principles for eligibility rules under shared and centralised management should be agreed.

## ***Ensuring sound financial management***

- ❑ Need for a common understanding of the tolerable risk of error for different policy areas and proportionality of controls.
- ❑ Shared management: the system of payments based on a declaration of payments by Member States, rather than on expenditure by beneficiaries could be extended.

# Reform of EU financing

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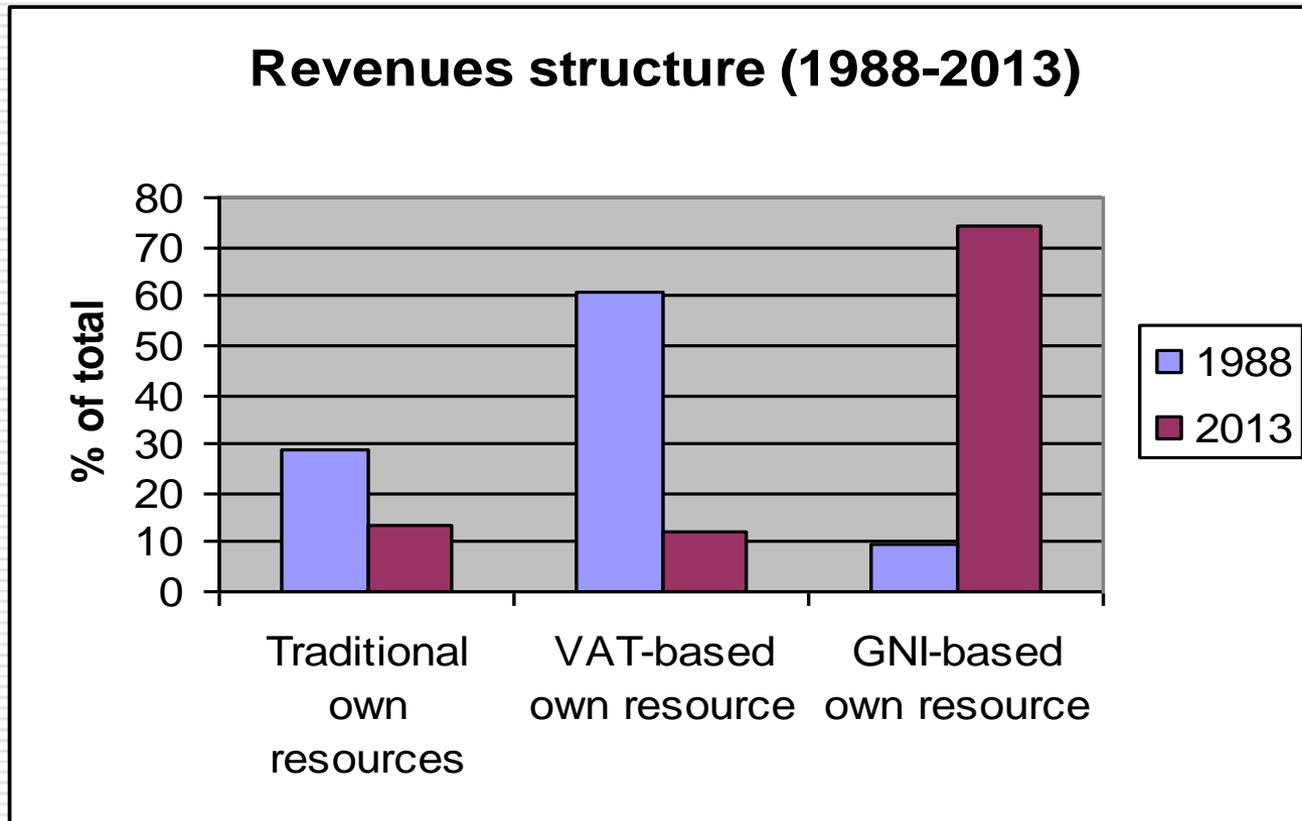
## ***Assessment of the existing system***

- ❑ System perceived as opaque and too complex, lacking fairness and relying excessively on national contributions which Member States aim at minimising.
- ❑ No clear link to EU policies, with the exception of customs duties

## ***Three avenues for reform***

- ❑ Simplify Member States contributions: eliminate the VAT-based contribution in parallel to the introduction of a new own resource.
- ❑ Progressively introduce one or several policy-driven own resources. Possibilities include: taxation of the financial sector; auctioning of greenhouse gas emission allowances; an aviation charge; EU VAT; EU energy tax; EU corporate income tax.
- ❑ Tackle the correction mechanisms: Whether correction mechanisms are justified in the future will depend on the reorientation of spending priorities and other reforms of the own resources system.

# Graph 3: Revenues structure (1988-2013)



# Conclusions and next steps

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- ❑ Proposals in June 2011 for a new MFF covering the period 2014 to 2024, based on discussions with the other Institutions and with stakeholders.
- ❑ This will include a proposal for a regulation laying down the Multiannual Financial Framework and a draft decision on own resources.
- ❑ In the second half of 2011, legislative proposals required to implement the policies and programmes needed to drive forward the EU ambitions for the years ahead